

Message Text

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ACTION INT-05

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SUBJECT: PHELPS DODGE AND GOLD FIELDS ANNOUNCE MAJOR MINERALS
DEVELOPMENT IN SOUTH AFRICA

REF: A) JOHANNESBURG A-10; B) JOHANNESBURG A-94, NOV 1, 1976

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1. ON APRIL 12, PHELPS DODGE CORPORATION (PDC)
AND GOLD FIELDS OF SOUTH AFRICA (GFSA) ANNOUNCED
JOINTLY THAT THE TWO FIRMS HAD REACHED AGREEMENT IN
PRINCIPLE FOR THE FINAL DEVELOPMENT AND EXPLOITATION
OF PDC'S BLACK MOUNTAIN COPPER/LEAD/ZINC/SILVER OREBODY
AT AGGENEY'S (BETWEEN POFADDER AND SPRINGBOK) IN SOUTH
AFRICA'S NORTHERN CAPE PROVINCE. THE DEPOSIT IS ONE OF
THREE CONTROLLED BY PDC IN THIS IMMEDIATE AREA -- BLACK
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MOUNTAIN, BROKEN HILL AND BIG SYNCLINE. UNDER THE NEW
PARTNERSHIP PDC'S INTEREST IN ITS BLACK MOUNTAIN MINERAL
DEVELOPMENT COMPANY WILL BE REDUCED INITIALLY TO 49 PERCENT,
WITH ADDITIONAL DILUTION POSSIBLE LATER. GFSA AND ITS ASSOCIATES
WILL HOLD 51 PERCENT EQUITY SHARE CAPITAL, WITH THE RIGHT TO
PURCHASE RECOVERED ZINC CONCENTRATES FOR GFSA'S "ZINCOR"
ELECTROLYTIC REFINERY NEAR JOHANNESBURG. (ZINCOR CURRENTLY

OPEERATES ON CONCENTRATES PURCHASED FROM US STEEL/ANGLOVAAL'S PRIESKA COPPER MINES,PTY, LTD, CAPE PROVINCE, AND GFSA'S MINING OPERATIOS, AND OTHERS, IN NAMIBIA.) COPPER AND LEAD CONCENTRATES WILL BE EXPORTED.

2. THE BLACK MOUNTAIN OREBODY CONTAINS ABOUT 86 MILLION TONS OF ORE AT 0.60 PERCENT COPPER, 2.30 PERCENT LEAD, 0.50 PERCENT ZINC AND 0.73 OUNCES OF SILVER PER TON (REF A). WHILE POSSIBLY 30 MILLION TONS OF THE DEPOSIT'S TOTAL RESERVES COULD BE RECOVERED BY OPEN PIT MINING METHODS, PDC'S FEASIBILITY STUDIES REPORTEDLY SUGGEST MECHANIZED UNDERGROUND MINING FROM THE OUTSET TO REDUCE CAPITAL COSTS (TO \$173.0 MILLION). AT TODAY'S METAL PRICES AND EXCHANGE RATES, NET REVENUES ARE EXPECTED TO RANGE BETWEEN \$63.0-69.0 MILLION ANNUALLY, WITH AN OUTPUT OF 22,000 TONS OF COPPER CONCENTRATES, 132,000 TONS OF LEAD CONCENTRATES AND 35,000 TONS OF ZINC CONCENTRATES; FROM 1.1 MILLION TON OF ORE MINED PER YEAR. PLANS CALL FOR PRODUCTION BY 1980, FOLLOWING FULL MINE DEVELOPMENT, PLANT CONSTRUCTION AND THE COMPLETION OF RAIL FACILITIES FROM AGGENEY'S TO A LINK-UP WITH THE EXISTING ULTRAMODERN SISHEN-SALDHANA LINE. EXPORTS WILL BE THROUGH THE SALDHANA BAY PORT (REF B). END UNCLASSIFIED

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3. THE TIMING OF PDC'S ANNOUNCEMENT IS INTERESTING. PDC'S NEIGHBOR IN CAPE PROVINCE MINERALS DEVELOPMENT, NEWMONT MINING COPORATIN (NEW YORK) (O'OKIEP COPPER, PALABORA AND HIGHVELD STEEL AND VANADIUM CORPORATIN IN LIMITED OFFICIAL USE

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SOUTH AFRICA), IS PURSUING A SIMILAR COURSE AT GAMSBERG NEAR SPRINGBOK (LEAD/ZINC). EARLY JANUARY DISCUSSIONS WITH NEWMONT EXECUTIVE VICE PRESIDENT, V. VELLE, INDICATED THAT, WHILE EXPLORATION AND DEVELOPMENT BY BOTH COMPANIES IN THE AGGENEY'S AREA HAD PROGRESSED TO DE ISION-MAKING STAGES (TO "GO OR NO-GO"), BOTH PREFERRED TO "WAIT AWHILE" IN LIGHT OF RECENT POLITICAL DEVELOPMENTS. VELLE NOTED, HOWEVER, THAT HIS FIRM HAD BEEN UNDER "SOME PRESSURE" DURING THE PAST YEAR FROM SOUTH AFRICAN MINING HOUSES TO EITHER BACK AWAY FROM LEASEHOLDINGS (TO PERMIT OTHERS TO INITIATE OPERATIONS) OR MOVE INTO FINAL DEVELOPMENTAL EFFORTS. THIS POSITION WAS REITERATED IN FEBRUARY BY PDC REP P. MATTER. MATTER SAD THEN THAT PDC WAS FARTHER ALONG IN ITS FEASIBILITY STUDIES (THAN NEWMONT), AND TAT PDC HAD INITIATED DISCUSSIONS WITH ANGLO AMERICAN, JOHANNESBURG CONSOLIDATED ("JOHNNIES"), GENERAL MINING AND GFSA WITH THE HOPE THAT ONE OR MORE OF THESE SOUTH AFRICAN GROUPS WOULD BE INTERESTED IN A PARTNERSHIP ARRANGEMENT.

WE ARE NOT AWARE IF NEWMONT HAS TAKEN THIS STEP AS YET, THOUGH QUITE POSSIBLY THE PDC6/GFSA ANNOUNCEMENT MAY TRIGGER ACTION IN THIS DIRECTION SOON.

4. PDC AND NEWMONT EACH CONTROL SIGNIFICANT CAPE PROVINCE BONANZAS IN THE CLASSIC SENSE OF THE TERM. FOR ITS PART, PDC HAS BEEN ACTIVE IN FIELD WORK IN THIS AREA FOR SOME SIX YEARS AND HAS EXPENDED OVER \$10.0 MILLION IN ITS EXPLORATORY PROGRAM TO DATE. NEWMONT'S DISCOVERIES AND FIELD EFFORTS FOLLOW CLOSELY BEHIND. GIVEN THE OBVIOUSLY FAVORABLE ECONOMIC CONSIDERATIONS OF MULTI-PRODUCT POTENTIALS AND SATISFACTOR WORLD MARKET OUTLOOKS, BOTH WOULD THUS BE EXTREMELY RELUCTANT INDEED TO RELINQUISH HOLDINGS OF THESE MAGNITUDES ON PURELY POLITICAL GROUNDS.

5. MEANWHILE, MOST OTHER US COMPANIES INTERESTED IN MINERAL DEVELOPMENT IN SOUTH AFRICA ARE CONDUCTING THEIR LIMITED OFFICIAL USE

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AFFAIRS GENERALLY ON LOW KEY BASES. THOSE OF IMPORTANCE IN THIS CATEGORY ARE MONTROSE EXPLORATION (ALLIED CHEMICAL), ENGLEHARD, ESSO MINERALS, ESSEX MINERALS (US STEEL) AND TEXAS GULF SULFUR. UNION CARBIDE (UCAR), ON THE OTHER HAND, IS CONTINUING WITH ITS HIGH PROFILE CONSTRUCTION AND OPERATION PROGRAMS AT BRITS (VANADIUM OXIDE AND VANADIUM CARBIDE) AND STEELPOORT (FERROCHROMIUM), TRANSVAAL. AT STEELPOORT, UCAR/GENERAL MINING'S TUBATSE FERROCHROME FACILITIES WILL BE OPENED OFFICIALLY BY THE MINISTER OF MINES, S.P. BOTHA, MAY 18. PRESS ATTENTION MAY BE ANTICIPATED.
KIRBY

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